AXS Education Series

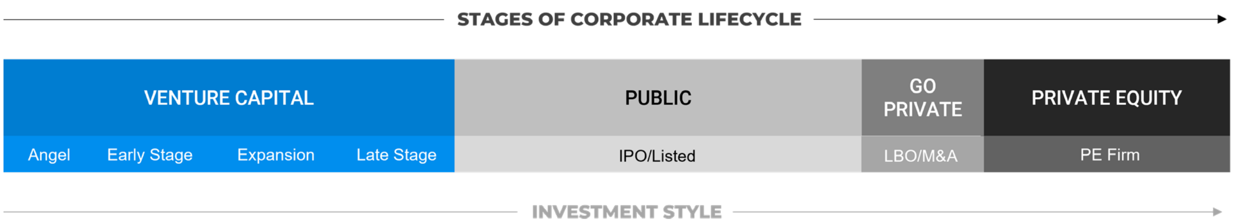
VENTURE CAPITAL FOR ALL INVESTORS

How individual investors can access venture capital exposure

Venture capital for all investors?

If entrepreneurs are the rock stars of the business world, venture capitalists are the promoters whose funding gets them onto the big stage. Huge brands we all know – from Apple to Zoom – would not have gone public without venture capital fueling their growth. Investors who get in on the early stages of the corporate lifecycle may stand to multiply their investments handsomely.

Locked out of the blue zone?



Most of us have unfortunately been locked out of opportunities to invest in the thousands of entrepreneurial companies with the potential for hugely outsized gains from their sales or IPOs. That leaves individual investors having to concentrate almost entirely on publicly traded stocks, missing out of the front end of the lifecycle — companies backed by venture capital.

GOOD NEWS: While you may never have the means to become a venture capitalist, there's a way to access to this high reward potential. Read on to find out how.

WHO INVESTS IN VENTURE CAPITAL?

Typically, three parties participate in a venture capital (VC) deal.

Investors put up the money. Often considered "limited partners," they fall into two broad camps:

> **Institutional investors**, like college endowments, charitable organizations, governments, etc. who manage money for long-term growth.
>
> **High net worth individuals or family offices**. They are accredited investors with sizable income and wealth, high risk tolerance and the ability to withstand long lock-up periods of their funds. They are also permitted to trade in illiquid securities.

Venture capital funds pool investor money in one fund to seek private equity stakes in companies. Venture capitalists pick the companies for the portfolio. Using a combination of analytical, business management and other relevant skills, they find and nurture high growth opportunities. These are some of the smartest, forward-thinking people with a knack for spotting future trends and successful businesses. They understand the high risks involved and aim to diversify their investments to mitigate risks. Think *Shark Tank*.

Private companies receive funding and guidance from the VC fund. These are start-ups and small- to medium-sized enterprises with strong growth potential that need cash to implement their business plan.

If the company successfully grows, it can eventually go public or attract a buyer. The VC fund then gets it share of the proceeds, takes its fees from the transaction, and returns the rest to the limited partners. Returns range from zilch to multiples of the original investment.

Other paths exist to own equity in a private company. Before seeking VC money, start-ups often get an initial injection of cash from individual "angel" investors and may go through rounds of seed capital raised from other sources.

WHAT BARRIERS SHUT INDIVIDUALS OUT OF VENTURE CAPITAL?

Historically, the traditional VC investing model only invites an exclusive club of investors. Consider the membership requirements:

Who's eligible?	Institutional and accredited investors only.
What's the minimum investment?	Starts around $1,000,000 and is often much higher.
How long is the investment?	7-10 year lock-up period.
What does it cost?	Typically there is a 2% management fee year over year plus 20% of the capital gains go to the venture capital fund managers.

The average investor has had no access to VC funds for good reasons. Venture capital carries huge risks and investors must be able to withstand heavy losses. When young companies fail, entire multi-year investments can evaporate in a flash.

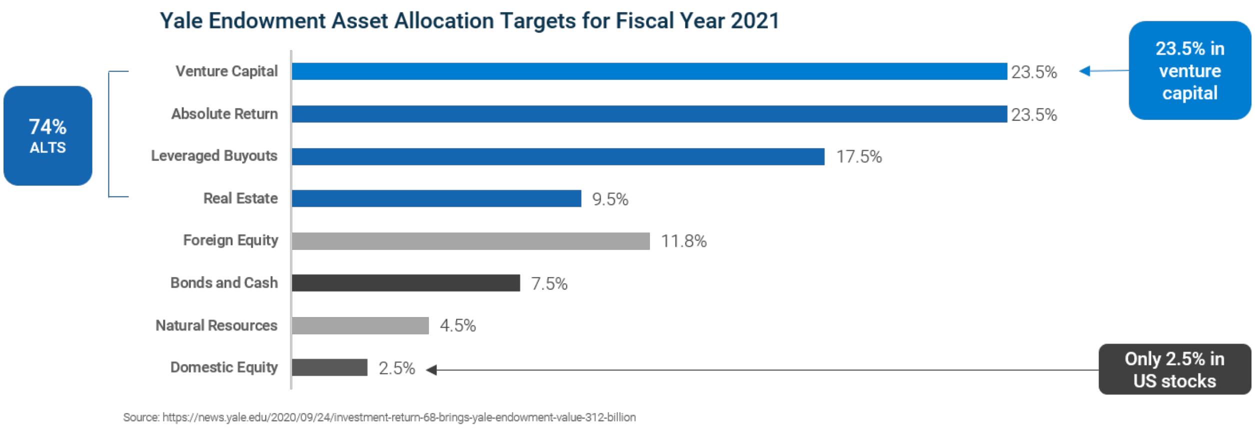
As former *Shark Tank* star Chris Sacca warns "Early-stage companies rarely succeed… don't invest money that you can't afford to lose."

Markets Insider

VC fund portfolios bet on relatively few companies, lacking the diversification you might find in a mutual fund or ETF. Also, no two VC managers will experience the same results, and there is no guarantee that past success will repeat itself.

WHY DO INSTITUTIONS INVESTORS LOVE VENTURE CAPITAL?

It's remarkable to compare the differences between the portfolios of institutional and individual investors. Take the Yale Endowment, long revered as the gold standard for smart investing. Observe Yale's 2021 allocation of nearly a quarter of its assets to venture capital and only 2.5% in U.S. equities.



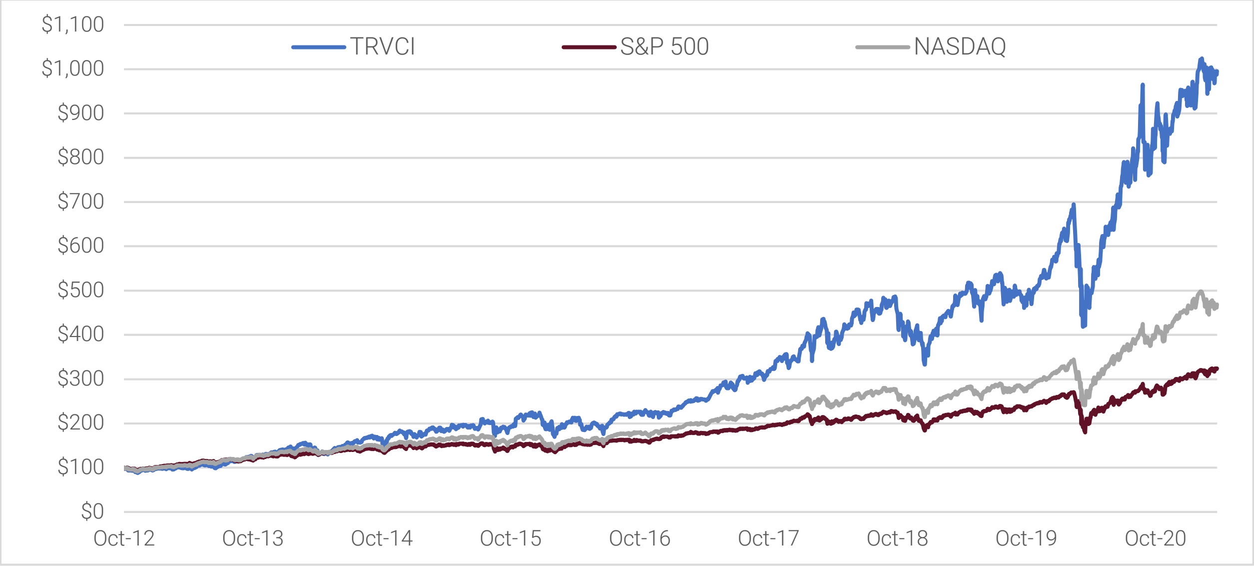
The Yale Endowment turns the traditional formula of 60% stocks and 40% fixed income on its head, devoting nearly 3/4th of its allocation to alternative investment strategies in pursuit of growth and income independent of the broad markets.

WHY INVEST IN VENTURE CAPITAL?

If venture capital is so risky, why invest in it at all? The expected reward for taking on high risk is the **potential for outperformance!**

Venture capital can also potentially enhance traditional equity returns with an amplified source of growth. Compare the performance of venture capital against publicly traded stocks in the S&P 500 and NASDAQ indexes.

Thomson Reuters Venture Capital Index (TRVCI)
Cumulative Returns through 3/31/2021



Source: Bloomberg. S&P 500 is the S&P 500 Total Return Index. NASDAQ is the NASDAQ Composite Index.

From late 2012 through the end of 2020, the cumulative return of the Thomson Reuters Venture Capital Index (ticker "TRVCI") was **896%**. (More on this index below.) Compare this to the S&P 500's 224% and NASDAQ's 369%. A meaningful difference. Of course, these are historical returns and past performance is no guarantee of future returns.

HOW DO YOU MEASURE VENTURE CAPITAL'S PERFORMANCE?

Unlike public companies, private businesses do not disclose their financials and don't have tickers that quantify their daily value. Even so, benchmarks for the venture capital universe do exist.

Remember these letters: T-R-V-C-I. The industry's first-ever investable venture capital index.

Thomson Reuters solved for this lack of information by tapping into its vast research database of financial information it receives from VC-backed companies. It aggregates otherwise hard-to-find data from upwards of 9,000 VC-backed companies to calculate the overall valuations and sector breakdown of these private firms. Too bad there is no way to directly invest in the companies in this exclusive database – after all, they are private companies, and no one will invite you to the equity table.

Here's the ingenious solution. Thomson Reuters developed and launched the industry's first-ever investable VC return tracking index by employing time-tested academic and empirical research to **replicate the overall performance of the VC universe through a portfolio of publicly traded stocks**. The key is holding stocks that correspond to the sector breakdowns mentioned earlier. If you want to geek out, read about the methodology.

The **Thomson Reuters Venture Capital Index (TRVCI)** was launched in 2012 and has become one of the leading indicators of the performance of the broad U.S. venture capital industry. Not just the performance (or lack thereof) of one particular company, but rather the performance of the collective venture capital industry at large.

ACTUALLY, INVESTORS CAN ACCESS VENTURE CAPITAL EXPOSURE!

The high financial commitment (time, money and fees) and the risks that keep non-accredited investors out of direct venture capital deals aren't going away any time soon. But if you think about why we all invest – to grow and secure wealth for retirement and other future needs – **what ultimately matters is risk-adjusted performance**, not the exact way you invest. Do you need to pour money directly into pre-IPO companies to achieve their return profile?

"It's hard for mutual funds to directly own venture capital or private equity in any size, but it can be done through fund replication, which mimics the aggregate returns of the alternatives."

Barron's, Making the Case for Liquid Alts 2.0, April 2021

The advent of the **Thomson Reuters Venture Capital Index opened a door** for individuals to seek to replicate the historically outsized performance generated by venture capital as an asset class.

Five Things to Remember

1. Venture capital funds are the most common vehicle to connect investors with early stage companies.
2. Historically venture capital investing has been available only to institutional investors and accredited individuals with high net worth.
3. Most investors have been unable to meet the high investment minimums, pay high fees, tie up their money for long periods and stomach the risks.
4. Thomson Reuters developed the TRVCI index in 2012 to track the returns of the VC industry using publicly traded stocks.
5. By investing in a fund that tracks TRVCI, investors can seek to replicate venture capital returns without high barriers to entry.

DESCRIPTIONS OF INDICES

NASDAQ Composite Index is the market capitalization-weighted index of over 2,500 common equities listed on the Nasdaq stock exchange.

S&P 500 Index (Standard & Poor's 500 Index) is a market-capitalization-weighted index of the 500 largest publicly-traded companies in the U.S.

Thomson Reuters Venture Capital Index (TRVCI) replicates the performance of the Thomson Reuters Venture Capital Research Index through a combination of liquid, publicly listed assets. The **Thomson Reuters Venture Capital Research Index** tracks the performance of the US venture capital industry through a comprehensive aggregation of venture funded private company values. The index is market cap weighted and published quarterly.

IMPORTANT DISCLOSURE

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Investors should carefully consider the investment objectives, risks, charges and expenses of AXS Thomson Reuters Venture Capital Return Tracker Fund. This and other important information about the Fund is contained in the Prospectus, which can be obtained by calling 833.AXS.ALTS (833.297.2587). The Prospectus should be read carefully before investing.

Mutual funds involve risk including possible loss of principal. There is no assurance that the Fund will achieve its investment objective. Diversification does not ensure profits or prevent losses.

Mutual funds involve risks including the possible loss of principal. The Fund may invest in ETFs, ETNs and mutual funds, which are subject to investment advisory and other expenses, which will be indirectly paid by the Fund. ETFs, ETNs and mutual funds are subject to issuer, fixed income and risks specific to the Fund. Venture capital investments involve a greater degree of risk; as a result, the Fund's returns may experience greater volatility than the overall market. The Fund does not invest in venture capital funds nor does it invest directly in the company funded by venture capital funds. The Fund seeks to generate returns that mimic the aggregate returns of U.S. venture capital backed companies as measured by the Thomson Reuters Venture Capital Index (TRVCI). There is a risk that Funds' return many not match or achieve a higher degree of correlation with the return of the TRVCI. Additionally, the TRVCI's return may not match or achieve a high degree of correlation with the return of the U.S. venture capital-based companies.

Investments in equity securities are subject to overall market risks. To the extent that the Fund's investments are concentrated in or significantly exposed to a particular sector, the Fund will be susceptible to loss due to adverse occurrences affecting that sector. Loss may result from the Fund's investments in derivatives. These instruments may be illiquid, difficult to value and leveraged so that small changes may produce disproportionate losses to the Fund. Over the counter derivatives, such as swaps, are also subject to counterparty risk, which is the risk that the other party in the transaction will not fulfill its contractual obligation. In certain circumstances, it may be difficult for the Fund to purchase and sell particular derivative investments within a reasonable time at a fair price.

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